

STATE OF INDIANA) BEFORE THE INDIANA
) SS:
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)

Harrison County Farmers Mutual Fire Insurance)
Company)

7060 Depauw Church Road SE)
Elizabeth, Indiana 47117-9147)

Examination of Harrison County Farmers Mutual Fire
Insurance Company

NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Doug Webber, Acting Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of Harrison County Farmers Mutual Fire Insurance Company, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on May 26, 2010, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of Harrison County Farmers Mutual Fire Insurance Company shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

Date

June 17, 2010

Connie Ridinger
Connie Ridinger, CPA, CFE
Chief Examiner/Deputy Commissioner


CERTIFIED MAIL NUMBER: 7004 1160 0000 3839 2286

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the Harrison County Farmers Mutual Fire Insurance Company as of December 31, 2008.
2. That the Examiners' Recommendations are reasonable and necessary in order for the Harrison County Farmers Mutual Fire Insurance Company to comply with the laws of the State of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed and Sealed this 17th day of June, 2010.



Douglas Webber
Acting Insurance Commissioner

STATE OF INDIANA

Department of Insurance

REPORT OF EXAMINATION

OF

**HARRISON COUNTY FARMERS MUTUAL FIRE INSURANCE
COMPANY**

NAIC Co. CODE 92314

As of

December 31, 2008

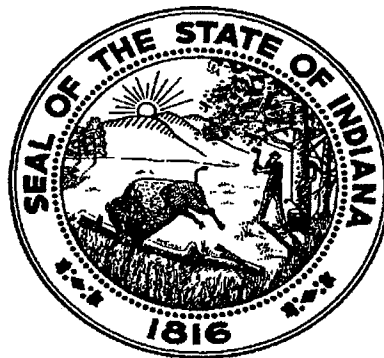


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STATE OF INDIANA

MITCHELL E. DANIELS, JR., Governor

IDOI

INDIANA DEPARTMENT OF INSURANCE

311 W. WASHINGTON STREET, SUITE 300

INDIANAPOLIS, INDIANA 46204-2787

TELEPHONE: (317) 232-2385

FAX: (317) 232-5251

CAROL CUTTER, Commissioner

May 18, 2010

Honorable Douglas Webber
Acting Commissioner
Indiana Department of Insurance
311 W. Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3613, an examination has been made of the affairs and financial condition of:

Harrison County Farmers Mutual Fire Insurance Company
11171 Toll Road NW
Depauw, IN 47117

hereinafter referred to as the "Company", an Indiana-domiciled, farm mutual insurance company. The examination was conducted at the Company's corporate offices in Depauw, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2008, is hereby respectfully submitted.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES
(317) 232-2413

COMPANY COMPLIANCE
(317) 233-0697

CONSUMER SERVICES
(317) 232-2395
In-State 1-800-622-4461

EXAMINATIONS / FINANCIAL SERVICES
(317) 232-2390

MEDICAL MALPRACTICE
(317) 232-2402

SECURITIES / COMPANY RECORDS
(317) 232-1991

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (IDOI) as of December 31, 2004. The present risk-focused examination, covering the period from January 1, 2005 through December 31, 2008, was conducted by Noble Consulting Services, Inc. (Noble) and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

We conducted our risk-focused examination pursuant to and in accordance with the 2009 NAIC Financial Condition Examiners Handbook (Handbook). The handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

HISTORY

The Company was organized on March 18, 1877, and later elected to come under Chapter 145, Acts 1919, IC 27-5-1 of the Indiana Insurance Laws, as pertains to farm mutual companies. The purpose of the Company is to safeguard its members, so far as possible, against loss as permitted under the farm mutual law under which it operates, and to distribute on the mutual insurance plan such loss as may occur.

CAPITAL AND SURPLUS

As of December 31, 2008, the Company had surplus of \$520,216 and had 528 members (policyholders), who are the owners of the Company.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to conduct business throughout the State of Indiana and currently services members in Harrison, Crawford, Floyd, and Washington counties. The Company has just one office, located in Depauw, and works through independent agents, to promote their insurance products. The Company insures losses to farm and farm-related structures, machinery, grain and hay, and livestock caused by fire, wind, theft/vandalism, hail, and earthquake. The Company also insures a number of homes and a few commercial buildings.

GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company, as reported during the examination period:

<u>Year</u>	<u>Admitted</u> <u>Assets</u>	<u>Liabilities</u>	<u>Member</u> <u>Surplus</u>	<u>Premium</u> <u>Written</u>	<u>Losses Paid</u>	<u>Net Income</u> <u>(Loss)</u>
2008	\$ 520,774	\$ 558	\$ 520,216	\$ 424,780	\$ 483,929	\$ (77,746)
2007	659,114	558	658,556	276,542	296,857	(56,132)
2006	731,270	553	730,717	213,720	85,460	74,291
2005	656,978	567	656,411	258,459	154,270	72,047

The 2007 and 2008 net loss is largely a result of much higher losses paid. These losses were a result of very high storm activity in these two years. While this trend appeared to continue into the next year, this unusually bad stretch highlights the geographic risk of the Company.

MANAGEMENT AND CONTROL

Members

Members (policyholders) of the Company are considered its owners. An annual meeting is held on the fourth Saturday in January of each year for the purpose of electing or re-electing a Director to fill the vacancy created from the expiration of a current Director's five-year term, in addition to addressing any other business as may be brought before the meeting. Each member is entitled to one vote for each issue where a vote is necessary.

Directors

The Company's Bylaws direct that the power of the Company is vested in a Board of Directors, whose members are elected to five (5) year terms (on a staggered basis), such that each year, one directorship is filled. The following is a list of Board Members as of December 31, 2008:

<u>Name of Director</u>	<u>Residence</u>
Sherrill Wolfe	Depauw, IN
Martha Wolfe	Depauw, IN
Bill Curts	Corydon, IN
Marla Miller	Elizabeth, IN
Terry Miller	Elizabeth, IN

Officers

The Company's Bylaws state that the officers of the Company shall consist of a President, a Vice President, A Treasurer, and a Secretary. Each officer is elected to a five (5) year term, staggered similarly to the directorships noted above. The following is a list of officers as of December 31, 2008.

<u>Name</u>	<u>Position</u>
Sherrill Wolfe	President
Martha Wolfe	Secretary
Marla Miller	Vice President
Terry Miller	Treasurer

CONFLICT OF INTEREST

The Company had no signed Conflict of Interest Statements. See the Summary of Significant Findings section of this Report of Examination for further commentary.

OATH OF OFFICE

IC 27-1-1-10(i) stipulates that every Director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation. The Company had no signed Oath of Office statements as of December 31, 2008. See the Summary of Significant Findings section of this Report of Examination for further commentary.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

There were no amendments made to the Company's Articles of Incorporation or Bylaws during the examination period.

Minutes

Minutes from the Board of Directors meetings and the annual meeting of the members were reviewed for the period under examination through the conclusion of fieldwork. Minutes documented the Board's oversight of operations and strategic planning. Board meetings were held in accordance with Company Bylaws.

AFFILIATED COMPANIES

The Company is owned by its members and has no affiliated companies.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by CNA. The bond has blanket coverage of \$20,000 with no deductible. The fidelity bond does not meet the prescribed minimum coverage of \$25,000 specified by the NAIC. See the Summary of Significant Findings section of this Report of Examination for further commentary.

STATUTORY AND SPECIAL DEPOSITS

As a farm mutual, the Company is not required to maintain a statutory deposit with the State of Indiana.

REINSURANCE

Reinsurance Assumed

The Company assumed no reinsurance during the examination period.

Reinsurance Ceded

The Company has a combined individual and aggregate excess of loss reinsurance agreement with Grinnell Mutual Reinsurance Company (Grinnell) of Grinnell, Iowa, an Indiana authorized, A rated reinsurance carrier. Under the individual occurrence of loss, Grinnell assumes the liability on individual losses in excess of \$50,000 caused by fire or wind. Under the aggregate excess of loss, whenever total losses exceed \$149,112 (the attachment point for 2008), Grinnell indemnifies the Company for 100% of the excess.

RESERVES

The Company reported no unpaid claims or incurred but unreported (IBNR) claims as of December 31, 2008. Examiner noted the existence of unpaid claims and recommended an adjustment. Based upon a review of claim activity through the examination date, there did not appear to be a need to book an additional amount for IBNR. See the Comments on the Financial Statements section of this Report of Examination for further commentary.

ACCOUNTS AND RECORDS

The Company's 2007 and 2008 trial balances were prepared by Melhiser Endres Tucker, P.C., a certified public accounting firm employed by the Company to prepare its taxes and assist in the preparation of its annual statement. The trial balances were agreed to the respective annual statements without exception.

Harrison County Farmers Mutual Fire Insurance Company

Financial Statements

Assets, Liabilities, and Surplus

	As of December 31, 2008			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
Assets:				
Bonds	\$ 43,380	\$ -	\$ 43,380	\$ 66,674
Stocks	67,299	-	67,299	99,864
Bank Balances	410,095	-	410,095	492,576
Total Assets	\$ 520,774	\$ -	\$ 520,774	\$ 659,114
Liabilities and Surplus:				
Unpaid claims	\$ -	\$ 54,777	\$ 54,777	\$ -
Less, reinsurance recoverable	-	(96,151)	(96,151)	-
Net unpaid claims	\$ -	\$ (41,374)	\$ (41,374)	\$ -
Taxes Payable	558	-	558	558
Unearned premium reserve	-	336,000	336,000	-
Total Liabilities	\$ 558	\$ 294,626	\$ 295,184	\$ 558
Surplus	\$ 520,216	\$ (294,626)	\$ 225,590	\$ 658,556
Total liabilities and surplus	\$ 520,774	\$ -	\$ 520,774	\$ 659,114

Harrison County Farmers Mutual Fire Insurance Company

Financial Statements

Statement of Income

	As of December 31, 2008			December 31, Prior Year
	Per Annual Statement	Examination Adjustments	Per Examination	
Ledger Assets, December 31 prior year	\$ 675,138	\$ -	\$ 675,138	\$ 731,270
Income:				
Premiums, net of reinsurance	\$ 424,780	\$ -	\$ 424,780	\$ 276,542
Interest on investments	26,001	-	26,001	39,336
Capital gains	659	-	659	2,234
Balance adjustment	-	-	-	2,375
Total income	\$ 451,440	\$ -	\$ 451,440	\$ 320,487
Disbursements:				
Losses, net of reinsurance	\$ 483,929	\$ -	\$ 483,929	\$ 296,857
Operating expenses	45,257	-	45,257	79,762
Non-operating expenses	-	-	-	-
Total disbursements	\$ 529,186	\$ -	\$ 529,186	\$ 376,619.00
Net income (loss)	\$ (77,746)	\$ -	\$ (77,746)	\$ (56,132)
Ledger assets, December 31 current year	\$ 597,392	\$ -	\$ 597,392	\$ 675,138

COMMENTS ON THE FINANCIAL STATEMENTS

The Company did not report a liability for unpaid claims as of December 31, 2008. Review of subsequent payment records indicated that unpaid claims should have been reported in the amount of \$54,777. An examination adjustment was made to establish a liability for unpaid claims at December 31, 2008.

The Company did not report a recoverable for amounts due from the reinsurer as of December 31, 2008. Review of subsequent receipts indicated that a reinsurance recoverable should have been reported in the amount of \$96,151. An examination adjustment was made to properly report the reinsurance recoverable.

The Company did not report a liability for unearned premiums as of December 31, 2008. The calculation by the Examiner indicated that unearned premiums should have been reported in the amount of \$336,000. An examination adjustment was made to properly report unearned premiums.

The Company did not report any accrued interest income as of December 31, 2008. The Examiner was unable to determine the amount that should have been reported; therefore, no examination adjustment was made. The Company should report accrued interest income in future Annual Statements.

SUMMARY OF SIGNIFICANT FINDINGS

As noted in the Conflict of Interest section of this report, the Company did not have signed Conflict of Interest statements on file. In accordance with regulatory requirements, signed Conflict of Interest statements should be obtained from Board members on an annual basis.

As noted in the Oath of Office section of this report, the Company did not have signed Oath of Office statements on file. In accordance with regulatory requirements, signed Oaths of Office statements should be obtained from Board members on an annual basis.

As noted in the Fidelity Bond section of this report, the Company's fidelity bond did not meet the prescribed minimum coverage of \$25,000 specified by the NAIC. The Company should obtain a bond which meets the prescribed minimum.

SUBSEQUENT EVENTS

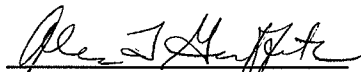
No significant subsequent events were noted.

MANAGEMENT REPRESENTATION

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a completed management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the IDOI.

CONCLUSION

The preceding Report of Examination of **Harrison County Farmers Mutual Fire Insurance Company** as of December 31, 2008 reflects its financial condition in accordance with the National Association of Insurance Commissioners Accounting Practices and Procedures Manual and any and all prescribed and permitted accounting practices of the Indiana Department of Insurance. An Affidavit of the Examiner-in-Charge, Daniel P. McBay, CFE, is on file with the Indiana Department of Insurance and attests that the examination was performed in a manner consistent with the standards and procedures required by the Indiana Department of Insurance and the National Association of Insurance Commissioners Financial Condition Examiners Handbook. Based on my review, to the best of my knowledge, the examination was performed in a manner consistent with those standards and procedures and properly reflects the financial condition of **Harrison County Farmers Mutual Fire Insurance Company**.


Alan T. Griffith, CFE
Examinations Manager
Indiana Department of Insurance